

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Chesaning	County Saginaw
Audit Date 2/29/04	Opinion Date 3/26/04	Date Accountant Report Submitted to State: April 28, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

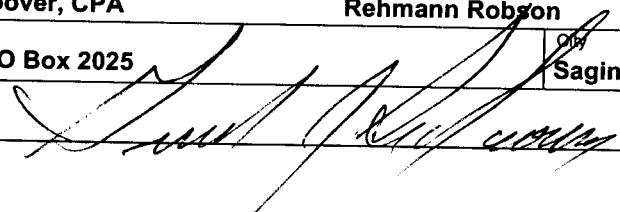
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Gerald J. Desloover, CPA				Rehmann Robson	
Street Address 5800 Gratiot, PO Box 2025		City Saginaw	State MI	ZIP 48605	
Accountant Signature 			Date 4/28/04		

VILLAGE OF CHESANING
FINANCIAL STATEMENTS

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VILLAGE OF CHESANING

FINANCIAL STATEMENTS

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

March 26, 2004

Village Council
Village of Chesaning
Chesaning, Michigan

We have audited the accompanying general purpose financial statements of the *Village of Chesaning, Michigan*, as of and for the year ended February 29, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the *Village of Chesaning, Michigan's* management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the *Village of Chesaning, Michigan*, as of February 29, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2004, on our consideration of the *Village of Chesaning, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the *Village of Chesaning, Michigan*. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Rehmann Lohman

GENERAL PURPOSE FINANCIAL STATEMENTS

VILLAGE OF CHESANING, MICHIGAN

**COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS**

FEBRUARY 29, 2004

	GOVERNMENTAL FUND TYPES		PROPRIETARY FUND TYPES	
	GENERAL	SPECIAL REVENUE	ENTERPRISE	INTERNAL SERVICE
ASSETS				
Cash and cash equivalents	\$ 162,576	\$ 427,174	\$ 118,409	\$ 34,901
Receivables:				
Accounts	2,446	-	12,750	-
Taxes - delinquent	41,961	3,737	10,390	-
Due from other funds	-	-	-	180,466
Due from other governmental units	45,130	16,014	-	-
Advance to other funds	30,000	-	-	-
Restricted assets - cash and cash equivalents	-	-	729,965	-
Fixed assets - net of accumulated depreciation (where applicable)	-	-	3,844,172	314,413
Amount to be provided for retirement of long term debt	-	-	-	-
Amount to be provided for accrued compensated absences	-	-	-	-
TOTAL ASSETS	\$ 282,113	\$ 446,925	\$ 4,715,686	\$ 529,780
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable	\$ 44,866	\$ 5,047	\$ 39,228	\$ 2,114
Accrued liabilities	16,234	636	8,149	1,228
Due to other funds	-	-	180,466	-
Advance from other funds	-	-	30,000	-
Notes payable	-	-	-	-
Bonds payable	-	-	1,595,000	-
Accrued compensated absences	-	-	-	-
TOTAL LIABILITIES	61,100	5,683	1,852,843	3,342
FUND EQUITY				
Contributed capital	-	-	1,184,597	215,370
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserved	-	-	579,965	-
Unreserved	-	-	1,098,281	311,068
Fund balances:				
Reserved	30,000	-	-	-
Unreserved - undesignated	191,013	441,242	-	-
TOTAL FUND EQUITY	221,013	441,242	2,862,843	526,438
TOTAL LIABILITIES AND FUND EQUITY	\$ 282,113	\$ 446,925	\$ 4,715,686	\$ 529,780

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)		TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	PRIMARY GOVERNMENT	COMPONENT UNITS	
TRUST AND AGENCY					
\$ 6,304	\$ -	\$ -	\$ 749,364	\$ 81,081	\$ 830,445
-	-	-	15,196	-	15,196
-	-	-	56,088	67,562	123,650
-	-	-	180,466	-	180,466
-	-	-	61,144	-	61,144
-	-	-	30,000	-	30,000
-	-	-	729,965	-	729,965
-	284,432	-	4,443,017	-	4,443,017
-	-	-	-	307,152	307,152
-	-	35,192	35,192	-	35,192
<u>\$ 6,304</u>	<u>\$ 284,432</u>	<u>\$ 35,192</u>	<u>\$ 6,300,432</u>	<u>\$ 455,795</u>	<u>\$ 6,756,227</u>
\$ -	\$ -	\$ -	\$ 91,255	\$ 180	\$ 91,435
4,203	-	-	30,450	-	30,450
-	-	-	180,466	-	180,466
-	-	-	30,000	-	30,000
-	-	-	-	9,152	9,152
-	-	-	1,595,000	298,000	1,893,000
-	-	35,192	35,192	-	35,192
4,203	-	35,192	1,962,363	307,332	2,269,695
-	-	-	1,399,967	-	1,399,967
-	284,432	-	284,432	-	284,432
-	-	-	579,965	-	579,965
-	-	-	1,409,349	-	1,409,349
2,101	-	-	32,101	-	32,101
-	-	-	632,255	148,463	780,718
2,101	284,432	-	4,338,069	148,463	4,486,532
<u>\$ 6,304</u>	<u>\$ 284,432</u>	<u>\$ 35,192</u>	<u>\$ 6,300,432</u>	<u>\$ 455,795</u>	<u>\$ 6,756,227</u>

VILLAGE OF CHESANING, MICHIGAN

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUND
AND DISCRETELY PRESENTED COMPONENT UNITS**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	EXPENDABLE TRUST
REVENUES			
Taxes and special assessments	\$ 469,324	\$ 41,473	\$ -
Licenses and permits	21,175	-	-
Intergovernmental:			
Federal	-	349,032	-
State	275,160	197,467	-
Charges for services	115,231	-	-
Interest	338	2,628	4
Reimbursements and refunds	21,233	102	-
Other	48,738	17,666	1,000
TOTAL REVENUES	951,199	608,368	1,004
EXPENDITURES			
Legislative	19,462	-	-
General government	272,126	-	-
Public safety	197,979	-	-
Public works	262,920	649,399	-
Health and welfare	-	-	-
Recreation and cultural	85,407	-	-
Capital outlay	2,241	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	840,135	649,399	-
REVENUES OVER (UNDER) EXPENDITURES	111,064	(41,031)	1,004
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	50,868	-
Operating transfers (out)	(15,000)	(35,868)	-
TOTAL OTHER FINANCING SOURCES (USES)	(15,000)	15,000	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	96,064	(26,031)	1,004
FUND BALANCES, BEGINNING OF YEAR	124,949	467,273	1,097
FUND BALANCES, END OF YEAR	\$ 221,013	\$ 441,242	\$ 2,101

The accompanying notes are an integral part of these financial statements.

TOTAL (MEMORANDUM ONLY) PRIMARY GOVERNMENT		COMPONENT UNITS	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY		
\$	510,797	\$	108,286	\$	619,083
	21,175		-		21,175
	349,032		-		349,032
	472,627		-		472,627
	115,231		-		115,231
	2,970	633			3,603
	21,335		-		21,335
	67,404		-		67,404
1,560,571		108,919	1,669,490		
	19,462	-		19,462	
	272,126	-		272,126	
	197,979	-		197,979	
	912,319	-		912,319	
	-	11,512		11,512	
	85,407	-		85,407	
	2,241	-		2,241	
	-	59,935		59,935	
1,489,534		71,447	1,560,981		
71,037		37,472	108,509		
	50,868	-		50,868	
	(50,868)	-		(50,868)	
-		-	-		
71,037		37,472	108,509		
593,319		110,991	704,310		
\$	664,356	\$	148,463	\$	812,819

VILLAGE OF CHESANING, MICHIGAN

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
AMENDED BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 2004

	GENERAL FUND		
	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes and special assessments	\$ 502,298	\$ 469,324	\$ (32,974)
Licenses and permits	22,000	21,175	(825)
Intergovernmental:			
Federal	-	-	-
State	234,021	275,160	41,139
Charges for services	120,080	115,231	(4,849)
Interest	400	338	(62)
Reimbursements and refunds	17,700	21,233	3,533
Other	79,191	48,738	(30,453)
TOTAL REVENUES	975,690	951,199	(24,491)
EXPENDITURES			
Legislative	19,525	19,462	63
General government	301,273	272,126	29,147
Public safety	201,420	197,979	3,441
Public works	283,977	262,920	21,057
Recreation and cultural	102,995	85,407	17,588
Capital outlay	11,500	2,241	9,259
TOTAL EXPENDITURES	920,690	840,135	80,555
REVENUES OVER (UNDER) EXPENDITURES	55,000	111,064	56,064
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers (out)	(5,000)	(15,000)	(10,000)
TOTAL OTHER FINANCING SOURCES (USES)	(5,000)	(15,000)	(10,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	50,000	96,064	46,064
FUND BALANCES, BEGINNING OF YEAR	124,949	124,949	-
FUND BALANCES, END OF YEAR	\$ 174,949	\$ 221,013	\$ 46,064

The accompanying notes are an integral part of these financial statements.

SPECIAL REVENUE FUNDS

AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
\$ 42,531	\$ 41,473	\$ (1,058)
-	-	-
-	349,032	349,032
180,000	197,467	17,467
-	-	-
4,000	2,628	(1,372)
-	102	102
298,090	17,666	(280,424)
524,621	608,368	83,747
-	-	-
-	-	-
-	-	-
696,145	649,399	46,746
-	-	-
-	-	-
696,145	649,399	46,746
(171,524)	(41,031)	130,493
33,750	50,868	17,118
(36,481)	(35,868)	613
(2,731)	15,000	17,731
(174,255)	(26,031)	148,224
467,273	467,273	-
\$ 293,018	\$ 441,242	\$ 148,224

VILLAGE OF CHESANING, MICHIGAN
COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPES

FOR THE YEAR ENDED FEBRUARY 29, 2004

	ENTERPRISE FUNDS	INTERNAL SERVICE	TOTAL
OPERATING REVENUES			
Taxes	\$ 115,191	\$ -	\$ 115,191
Charges for services	730,353	113,329	843,682
Other	23,418	-	23,418
TOTAL OPERATING REVENUES	868,962	113,329	982,291
OPERATING EXPENSES			
Personnel services	333,966	55,977	389,943
Professional services	65,749	-	65,749
Insurance	14,970	-	14,970
Supplies	54,339	2,382	56,721
Collection system	15,276	-	15,276
Digester project	18,074	-	18,074
Repairs and maintenance	24,607	9,025	33,632
Equipment rental	31,232	-	31,232
Utilities	65,873	-	65,873
Gas and oil	3,068	1,312	4,380
Depreciation	169,231	40,217	209,448
Other	31,005	296	31,301
TOTAL OPERATING EXPENSES	827,390	109,209	936,599
OPERATING INCOME	41,572	4,120	45,692
NONOPERATING REVENUES (EXPENSES)			
Interest income	4,634	709	5,343
Interest expense	(96,913)	-	(96,913)
TOTAL NONOPERATING REVENUES (EXPENSES)	(92,279)	709	(91,570)
NET INCOME (LOSS)	(50,707)	4,829	(45,878)
ADD: Depreciation on fixed assets acquired with grants and shared revenue that reduces contributed capital	24,113	-	24,113
INCREASE (DECREASE) IN RETAINED EARNINGS	(26,594)	4,829	(21,765)
RETAINED EARNINGS, BEGINNING OF YEAR	1,704,840	306,239	2,011,079
RETAINED EARNINGS, END OF YEAR	\$ 1,678,246	\$ 311,068	\$ 1,989,314

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPES

FOR THE YEAR ENDED FEBRUARY 29, 2004

	ENTERPRISE FUNDS	INTERNAL SERVICE	TOTAL
OPERATING INCOME	\$ 41,572	\$ 4,120	\$ 45,692
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	169,231	40,217	209,448
(Increase) decrease in current assets:			
Receivables	602	-	602
Due from other funds	102,620	(180,466)	(77,846)
Increase (decrease) in current liabilities:			
Accounts payable	16,927	922	17,849
Accrued liabilities	(1,655)	712	(943)
Due to other funds	82,072	-	82,072
TOTAL ADJUSTMENTS	369,797	(138,615)	231,182
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	411,369	(134,495)	276,874
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Repayment on advance from other funds	(10,000)	-	(10,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on bonds and notes	(60,000)	-	(60,000)
Interest paid on bonds and notes	(96,913)	-	(96,913)
Acquisition of fixed assets	(27,676)	(45,988)	(73,664)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(184,589)	(45,988)	(230,577)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	4,634	709	5,343
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	221,414	(179,774)	41,640
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	626,960	214,675	841,635
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 848,374	\$ 34,901	\$ 883,275

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

COMBINING BALANCE SHEET

DISCRETELY PRESENTED COMPONENT UNITS

FEBRUARY 29, 2004

	DOWNTOWN DEVELOPMENT AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION	TOTAL
ASSETS			
Cash and cash equivalents	\$ 78,473	\$ 2,608	\$ 81,081
Taxes receivable - delinquent	67,562	-	67,562
Amount to be provided for retirement of long term debt	307,152	-	307,152
TOTAL ASSETS	\$ 453,187	\$ 2,608	\$ 455,795
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 180	\$ -	\$ 180
Notes payable	9,152	-	9,152
Bonds payable	298,000	-	298,000
TOTAL LIABILITIES	307,332	-	307,332
FUND BALANCES			
Unreserved - undesignated	145,855	2,608	148,463
TOTAL LIABILITIES AND FUND BALANCES	\$ 453,187	\$ 2,608	\$ 455,795

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS

FOR THE YEAR ENDED FEBRUARY 29, 2004

	DOWNTOWN DEVELOPMENT AUTHORITY	ECONOMIC DEVELOPMENT CORPORATION	TOTAL
REVENUES			
Taxes and special assessments	\$ 108,286	\$ -	\$ 108,286
Interest	621	12	633
TOTAL REVENUES	<u>108,907</u>	<u>12</u>	<u>108,919</u>
EXPENDITURES			
Health and welfare	11,512	-	11,512
Debt service	59,935	-	59,935
TOTAL EXPENDITURES	<u>71,447</u>	<u>-</u>	<u>71,447</u>
REVENUES OVER EXPENDITURES	37,460	12	37,472
FUND BALANCES, BEGINNING OF YEAR	<u>108,395</u>	<u>2,596</u>	<u>110,991</u>
FUND BALANCES, END OF YEAR	<u>\$ 145,855</u>	<u>\$ 2,608</u>	<u>\$ 148,463</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

The accounting policies of the *Village of Chesaning* (the "Village") conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

REPORTING ENTITY

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Village and its component units. The component units discussed below are included in the Village's reporting entity because of the significance of their operational or financial relationship with the Village.

Discretely Presented Component Units - The component unit columns in the combined financial statements include the financial data of the Village's two component units. These units are reported in a separate column to emphasize that they are legally separate from the Village.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the Village board. The budgets and expenditures of the Downtown Development Authority must be approved by the Village board. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

Economic Development Corporation - The expenditures of the Economic Development Corporation must be approved by the Village. The Village also has the ability to significantly influence the operations of the Economic Development Corporation. Complete financial statements of the Economic Development Corporation can be obtained at the Village of Chesaning, 1100 West Broad Street, Chesaning, Michigan 48616.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Joint Operations - Under authorization of state statutes, the *Village of Chesaning* joined Chesaning Township and Brady Township to establish and operate a Joint Fire Protection Authority for the mutual advantage of the governments. Two members of the Board of Directors for the Authority are appointed by each Township and one member is appointed by the Village. The records are maintained and funds held by Chesaning Township. The operating and capital budgets are to be funded by a millage from each government. The tax for the Fire Authority on all Village properties is collected by Chesaning Township.

BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund and account group are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The various funds are grouped, in the financial statements in this report, into fund types, broad fund categories and account groups as follows:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial transactions except those required to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

PROPRIETARY FUNDS

Enterprise Funds

Enterprise Funds are used to account for operations that provide services to citizens financed primarily by user charges; or activities where the periodic measurement of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund

Internal Service Funds are used to account for operations that provide services to other funds of the Village through quasi-external transactions financed primarily through user charges. The Village maintains only one Internal Service Fund (Equipment Pool Fund).

FIDUCIARY FUNDS

Trust and Agency Funds

Trust and agency funds are used to account for assets held by the Village in a trustee or agency capacity for individuals, private organizations, other governments and/or other funds.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group is used to account for the Village's fixed assets (other than those accounted for in Proprietary Funds).

General Long-Term Debt

This account group is used to account for all long-term obligations of the Village, except those accounted for in Proprietary Funds.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures of the current period. Significant revenues susceptible to accrual include taxpayer-assessed income, sales taxes, state and federal sources, and intergovernmental revenues.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred provided the liability normally would be liquidated with expendable available financial resources. The major exception to this general rule is principal and interest on general long-term debt which is generally recognized when due.

All governmental funds and expendable trust funds are accounted for on a spending or "current financial resources" measurement focus. This means that generally only current assets and current liabilities are included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

All proprietary funds are accounted for on a cost of services or "economic resources" measurement focus. This means that all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

BUDGETS AND BUDGETARY CONTROL

The Village adopts budgets for the General Fund and Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council. All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted or amended by the Village Council throughout the operating year.

The legal level of control is at the activity level for the General Fund and the Special Revenue Funds.

The Administrator is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total activity expenditures in the General Fund and Special Revenue Funds must be approved by the Village Council.

ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the *Village of Chesaning* because it is at present considered not necessary to assure effective budgetary control or to facilitate effective cash planning and control.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

CASH AND CASH EQUIVALENTS

All short-term investments that are highly liquid and have an original maturity of three months or less are considered to be cash equivalents.

INVESTMENTS

Investments, which consist of municipal investment funds, are stated at fair value.

RECEIVABLES

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

DUE TO AND DUE FROM OTHER FUNDS, PRIMARY GOVERNMENT AND COMPONENT UNITS

During the course of its operations, the Village has numerous transactions between funds and component units to finance operations, provide services, construct assets and service debt. To the extent that certain transactions between funds and component units had not been paid or received as of fiscal year end, balances of interfund and component units "due to's" and "due from's" have been recorded.

RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS

Certain cash accounts are classified as restricted assets on the balance sheet because their use is limited. In the Enterprise Funds, the "Bond Reserve" account is used for the payment of current debt obligations and the "Improvements" and "Replacement" accounts are to report resources set aside to fund asset renewals, replacements and repairs.

FIXED ASSETS

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds. Public domain (infrastructure) general fixed assets consisting of bridges, curbs and gutters, streets, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the Village are excluded from the General Fixed Asset Account Group. No depreciation has been provided on general fixed assets.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Fixed assets are stated at cost. Donated fixed assets are recorded at their fair value on the date donated.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Plant and facilities	20 - 50 years
Equipment	5 - 10 years
Vehicles	5 years

LONG-TERM DEBT

Long-term liabilities to be funded by governmental funds are reported in the General Long-Term Debt Account Group. Long-term debt obligations to be funded by proprietary funds are recorded as a liability in the respective fund.

COMPENSATED ABSENCES

Vacation and sick days for Village employees are determined by union contracts. The estimated amount due to employees as of February 29, 2004, is accrued in the General Long-Term Debt Account Group. Vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the fund that will pay it.

FUND EQUITY

The unreserved undesignated fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represents that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spending resources. Reserved retained earnings for proprietary funds represents the net assets that have been legally identified for specific purposes. Designated fund balance indicates that portion of fund equity for which the Village has made tentative plans.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

PROPERTY TAXES

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 15. The Village levies taxes for general operating purposes, water and sewer improvements and street lighting.

Real property taxes not collected as of September 15 are turned over to Saginaw County for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. The assessed value of real and personal property located in the Village as of July 1, 2003, totaled \$48,535,824 representing 50% of estimated current value. The tax levy for that year was based upon the following rates:

	<u>Millage Rate Used</u>
General operating	10.10
Street lighting	0.90
Water improvement	1.00
Wastewater treatment	1.50

GRANTS AND OTHER INTERGOVERNMENTAL REVENUES

State grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the respective grants.

INTERFUND TRANSFERS

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by Village management.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2004, the Village carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT NO. 20

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Village has elected not to apply the Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its proprietary fund types.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS FOR BUDGETARY FUNDS

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures that are in excess of the amount appropriated. During the year ended February 29, 2004, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated in various activities as follows:

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable) Variance</u>
GENERAL FUND			
Operating transfer out	\$ 5,000	\$ 15,000	\$ (10,000)
SPECIAL REVENUE FUNDS			
MAJOR STREETS FUND			
Public works	543,195	557,632	(14,437)
Operating transfer out	33,750	35,868	(2,118)
STREET LIGHTING FUND			
Public works	40,000	40,598	(598)

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable) Variance</u>
SPECIAL REVENUE FUNDS (continued)			
SIDEWALK IMPROVEMENT FUND			
Public Works	\$ -	\$ 9,990	\$ (9,990)
AIRPORT FUND			
Public Works	-	924	(924)

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

The captions on the combined balance sheet related to cash and cash equivalents and the amounts in the Total (Memorandum Only) Reporting Entity column are as follows:

	<u>Deposits</u>	<u>Investments</u>	<u>Total</u>
Cash and cash equivalents	\$ 108,445	\$ 722,000	\$ 830,445
Restricted assets - cash and cash equivalents	<u>22,235</u>	<u>707,730</u>	<u>729,965</u>
Total	<u>\$ 130,680</u>	<u>\$1,429,730</u>	<u>\$ 1,560,410</u>

At year end, the carrying amount and bank balance of the Village's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 111,276	\$ 116,224
Uninsured - uncollateralized	<u>19,404</u>	<u>19,941</u>
Total deposits	<u>\$ 130,680</u>	<u>\$ 136,165</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investments

The Village has adopted an investment policy in accordance with Public Act 20 and within this policy the Village Treasurer is authorized to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptance of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes uninsured and unregistered, with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes uninsured and unregistered, with securities held by the counterparty, or the counterparty's trust department or agent but not in the Village name.

The carrying amount and fair value of investments by type are as follows.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Uncategorized investments:		
Municipal investment funds	<u>\$1,429,730</u>	<u>\$1,429,730</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

4. FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balances</u> <u>3/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>2/29/04</u>
Land and buildings	\$ 129,219	\$ -	\$ -	\$ 129,219
Machinery and equipment	69,208	-	-	69,208
Vehicles	72,651	-	-	72,651
Office equipment	<u>12,331</u>	<u>1,023</u>	<u>-</u>	<u>13,354</u>
Total	<u>\$ 283,409</u>	<u>\$ 1,023</u>	<u>\$ -</u>	<u>\$ 284,432</u>

A summary of Proprietary Fund fixed assets is as follows:

	<u>Enterprise</u> <u>Funds</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>	<u>Total</u>
Land	\$ 91,135	\$ -	\$ 91,135
Plant and facilities	5,697,018	-	5,697,018
Equipment	165,774	335,386	501,160
Vehicles	<u>43,251</u>	<u>277,878</u>	<u>321,129</u>
	5,997,178	613,264	6,610,442
Less: accumulated depreciation	<u>(2,153,006)</u>	<u>(298,851)</u>	<u>(2,451,857)</u>
Net fixed assets	<u>\$3,844,172</u>	<u>\$ 314,413</u>	<u>\$4,158,585</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

5. DEFINED BENEFIT PENSION PLAN

Plan Description

The Village's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Village participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Village is required to contribute at an actuarially determined rate; the current rate is 26.57% for public works employees, 35.20% for supervisory employees, and 0.0% for police employees of annual covered payroll. Village employees are not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

Annual Pension Cost

For the year ended February 29, 2004, the Village's annual pension cost of \$119,370 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age normal cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Village's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the latest actuarial valuation, was 31 years.

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/02	\$ 82,408	100%	\$ 0
2/28/03	94,766	100	0
2/29/04	119,370	100	0

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) -Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/00	\$262,893	\$1,458,260	\$1,195,367	18%	\$346,171	345%
12/31/01	301,816	1,721,209	1,419,393	18	334,812	424
12/31/02	285,799	1,846,160	1,560,361	15	382,032	408

6. LONG-TERM DEBT

PRIMARY GOVERNMENT:

GENERAL LONG-TERM DEBT

General long-term debt consists of the Village's liability for accrued sick and vacation pay.

Accrued Sick and Vacation Liability \$ 35,192

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

ENTERPRISE FUNDS

Revenue bonds are summarized as follows:

Water Supply System Revenue Bonds - 1996

The bonds dated January 1, 1996, which bear interest at 4.4% to 6.4%, are due serially through 2016.

The principal and interest are to be paid from the net revenues from the water supply system.

\$ 755,000

Storm and Sanitary Sewer Revenue Bonds - 1989

The bonds dated May 1, 1989, which bear interest at 6.6% to 7.15% are due serially through 2008. The principal and interest are to be paid from the net revenue of the sanitary sewer system.

215,000

Storm and Sanitary Sewer Revenue Bonds - 1993

The bonds dated April 1, 1993, which bear interest at 5.8% to 6.0%, are due serially through 2013. The principal and interest are to be paid from the net revenue of the sanitary sewer system.

625,000

TOTAL REVENUE BONDS

\$1,595,000

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Following is a summary of bonds and accrued sick and vacation transactions of the Village for the year ending February 29, 2004:

	<u>Revenue Bonds</u>	<u>Accrued Sick and Vacation Liability</u>	<u>Total</u>
Balances, payable March 1, 2003	\$1,655,000	\$ 51,893	\$1,706,893
Reduction of sick and vacation liability	-	(16,701)	(16,701)
Bonds retired	<u>(60,000)</u>	<u>-</u>	<u>(60,000)</u>
Balances payable, February 29, 2004	<u>\$1,595,000</u>	<u>\$ 35,192</u>	<u>\$1,630,192</u>

Maturities of long-term debt, including interest of \$561,549, (excluding accrued sick and vacation liability) are as follows:

	<u>Revenue Bonds</u>
2005	\$ 238,643
2006	197,021
2007	199,975
2008	192,422
2009	204,319
2010 and thereafter	<u>1,124,169</u>
Total	<u>\$2,156,549</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY:

Long-term debt of the component unit consists of general obligation bonds and notes payable.

General obligation bonds are summarized as follows:

Downtown Development Authority Michigan Transportation Fund Bonds

The bonds dated July 1, 1991, which bear interest at 6.0% to 9.0%, are due serially through 2005. The payments of principal and interest are made from the tax increment financing of the affected District.

\$ 40,000

Downtown Development Authority Michigan Transportation Fund Bonds

The bonds dated December 1, 1994, which bear interest at 6.2% to 8.0%, are due serially through 2012. The payments of principal and interest are made from the tax increment financing of the affected District.

240,000

Downtown Development Authority General Obligation Bonds

The bonds dated December 1, 1994, which bear interest at 6.5%, are due serially through 2006. The payments of principal and interest are made from the tax increment financing of the affected District.

18,000

TOTAL GENERAL OBLIGATION BONDS

298,000

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Notes payable are summarized as follows:

Street Lighting Equipment

The notes dated September 17, 1991, which bear interest at 7%, are due serially through 2005. The payments of principal and interest are made from the tax increment financing of the affected District.

\$ 9,152

TOTAL LONG-TERM DEBT

\$307,152

Following is a summary of bond and note transactions of the component unit, Downtown Development Authority, for the year ending February 29, 2004:

	<u>General Obligation Bonds</u>	<u>Notes</u>	<u>Total</u>
Balances, payable March 1, 2003	\$ 329,000	\$ 16,152	\$ 345,152
Bonds and notes retired	<u>(31,000)</u>	<u>(7,000)</u>	<u>(38,000)</u>
Balances payable, February 29, 2004	<u>\$ 298,000</u>	<u>\$ 9,152</u>	<u>\$ 307,152</u>

Maturities of long-term debt, including interest of \$102,265 are as follows:

	<u>General Obligation Bonds</u>	<u>Notes</u>	<u>Total</u>
2005	\$ 56,355	\$ 8,700	\$ 65,055
2006	53,930	1,292	55,222
2007	51,490	-	51,490
2008	43,120	-	43,120
2009	41,110	-	41,110
2010 and thereafter	<u>153,420</u>	<u>-</u>	<u>153,420</u>
Total	<u>\$ 399,425</u>	<u>\$ 9,992</u>	<u>\$ 409,417</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

7. INTERFUND RECEIVABLES AND PAYABLES

The following is a summary of all interfund receivables and payables at February 29, 2004:

	<u>Receivables</u>	<u>Payables</u>
PRIMARY GOVERNMENT		
General Fund		
General (advance to other funds)	\$ 30,000	\$ -
Enterprise Funds		
Wastewater Treatment Fund	-	180,466
Wastewater Treatment Fund (advance from other funds)	-	30,000
Internal Service Funds		
Equipment Pool Fund	<u>180,466</u>	<u>-</u>
TOTAL	<u>\$210,466</u>	<u>\$210,466</u>

8. CONTRIBUTED CAPITAL

The following is a summary of changes in contributed capital for the year ended February 29, 2004:

	<u>Enterprise Funds</u>		
	<u>Wastewater Treatment Fund</u>	<u>Water Fund</u>	<u>Internal Service Fund</u>
Balance - March 1, 2003	\$ 834,482	\$374,228	\$ 215,370
Less: Depreciation on fixed assets - current year	<u>(24,113)</u>	<u>-</u>	<u>-</u>
Balance - February 29, 2004	<u>\$ 810,369</u>	<u>\$374,228</u>	<u>\$ 215,370</u>

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

9. RESERVED FUND BALANCES/RETAINED EARNINGS

The following fund balances/retained earnings have been reserved:

GENERAL FUND

Reserved for:

Advance to Wastewater Treatment Fund	<u>\$ 30,000</u>
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ENTERPRISE FUNDS

Wastewater Treatment Fund

Reserved for:

Bond payments	\$ 75,046
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Improvements	207,231
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Replacement	<u>111,438</u>
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	<u>393,715</u>
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Water Fund

Reserved for:

Bond Payments	\$ 20,848
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Improvements	<u>165,402</u>
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	<u>186,250</u>
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Total

	<u>\$579,965</u>
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TRUST AND AGENCY FUNDS

Peet Center Fund

Reserved for:

Trust expenditures	<u>\$ 2,101</u>
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VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

10. SEGMENT INFORMATION - ENTERPRISE FUNDS

The Village maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended February 29, 2004, was as follows:

	<u>Wastewater Treatment Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Fund</u>
Tax revenues	\$ 69,116	\$ 46,075	\$ 115,191
Operating revenues	529,833	339,129	868,962
Depreciation	89,768	79,463	169,231
Operating income (loss)	49,887	(8,315)	41,572
Non-operating (expense) - net	(54,034)	(38,245)	(92,279)
Net (loss)	(4,147)	(46,560)	(50,707)
(Deductions) to contributed capital	(24,113)	-	(24,113)
Net working capital	(184,925)	98,631	(86,294)
Fund Equity:			
Contributed capital	810,369	374,228	1,184,597
Retained earnings	932,342	745,904	1,678,246
Total assets	2,813,231	1,902,455	4,715,686
Revenue bonds outstanding	840,000	755,000	1,595,000

VILLAGE OF CHESANING, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

11. CONTINGENCIES

The Village is a defendant in several matters which involve various claims against the *Village of Chesaning* related to disciplinary proceedings, unfair labor practices and property tax appeals. Outside counsel has advised that the possibility of unfavorable outcomes do exist, but believe that this is not likely. If an unfavorable outcome does occur, legal counsel is currently unable to predict the amount of range of potential loss.

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

The Village has an Administrative Consent Order with the Michigan Department of Environmental Quality regarding the Village's sewer overflows, which have occurred during the past two fiscal years. No liability has been recorded in the Wastewater Treatment Fund because the amount of any liability is currently undeterminable.

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COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES

GENERAL FUND

VILLAGE OF CHESANING, MICHIGAN

**GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AMENDED BUDGET AND ACTUAL**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 502,298	\$ 469,324	\$ (32,974)
Licenses and permits	22,000	21,175	(825)
Intergovernmental:			
State	234,021	275,160	41,139
Charges for services	120,080	115,231	(4,849)
Interest	400	338	(62)
Reimbursements and refunds	17,700	21,233	3,533
Other	79,191	48,738	(30,453)
TOTAL REVENUES	975,690	951,199	(24,491)
TOTAL EXPENDITURES	920,690	840,135	80,555
REVENUES OVER EXPENDITURES	55,000	111,064	56,064
OTHER FINANCING (USES)			
Operating transfers (out)	(5,000)	(15,000)	(10,000)
REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	50,000	96,064	46,064
FUND BALANCE, BEGINNING OF YEAR	124,949	124,949	-
FUND BALANCE, END OF YEAR	\$ 174,949	\$ 221,013	\$ 46,064

VILLAGE OF CHESANING, MICHIGAN

**GENERAL FUND
SCHEDULE OF EXPENDITURES
AMENDED BUDGET AND ACTUAL**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
LEGISLATIVE			
Village Council	\$ 19,525	\$ 19,462	\$ 63
GENERAL GOVERNMENT			
Administrative	301,273	272,126	29,147
PUBLIC SAFETY			
Police department	201,420	197,979	3,441
PUBLIC WORKS			
Garbage collection	119,380	100,875	18,505
Department of public works	164,597	162,045	2,552
TOTAL PUBLIC WORKS	283,977	262,920	21,057
RECREATION AND CULTURAL			
Parks and recreation	77,800	66,864	10,936
Airport	10,170	7,737	2,433
Community Center	15,025	10,806	4,219
TOTAL RECREATION AND CULTURAL	102,995	85,407	17,588
CAPITAL OUTLAY	11,500	2,241	9,259
TOTAL EXPENDITURES	<u>\$ 920,690</u>	<u>\$ 840,135</u>	<u>\$ 80,555</u>

SPECIAL REVENUE FUNDS

VILLAGE OF CHESANING, MICHIGAN

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET**

FEBRUARY 29, 2004

	MAJOR STREET	LOCAL STREET	STREET LIGHTING
ASSETS			
Cash and cash equivalents	\$ 233,749	\$ 87,420	\$ 39,588
Taxes receivable - delinquent	-	-	3,737
Due from other governmental units	11,752	4,262	-
TOTAL ASSETS	\$ 245,501	\$ 91,682	\$ 43,325
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 794	\$ 42	\$ 4,083
Accrued liabilities	518	118	-
TOTAL LIABILITIES	1,312	160	4,083
FUND BALANCES			
Unreserved - undesignated	244,189	91,522	39,242
TOTAL LIABILITIES AND FUND BALANCES	\$ 245,501	\$ 91,682	\$ 43,325

SIDEWALK IMPROVEMENT	AIRPORT	DPW BUILDING	TOTAL
\$ 6,360	\$ 15,658	\$ 44,399	\$ 427,174
-	-	-	3,737
-	-	-	16,014
\$ 6,360	\$ 15,658	\$ 44,399	\$ 446,925

\$ -	\$ 128	\$ -	\$ 5,047
-	-	-	636

-	128	-	5,683
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6,360	15,530	44,399	441,242
\$ 6,360	\$ 15,658	\$ 44,399	\$ 446,925

VILLAGE OF CHESANING, MICHIGAN

**SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	MAJOR STREET	LOCAL STREET	STREET LIGHTING
REVENUES			
Taxes	\$ -	\$ -	\$ 41,473
Intergovernmental:			
Federal	349,032	-	-
State	145,791	51,676	-
Rental income	-	-	-
Interest	2,123	249	124
Other	-	-	-
TOTAL REVENUES	496,946	51,925	41,597
EXPENDITURES			
Public works	557,632	40,255	40,598
REVENUES OVER (UNDER) EXPENDITURES	(60,686)	11,670	999
OTHER FINANCING SOURCES (USES)			
Operating transfer in	-	35,868	-
Operating transfer (out)	(35,868)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(35,868)	35,868	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER OTHER FINANCING USES	(96,554)	47,538	999
FUND BALANCES, BEGINNING OF YEAR	340,743	43,984	38,243
FUND BALANCES, END OF YEAR	\$ 244,189	\$ 91,522	\$ 39,242

SIDEWALK IMPROVEMENT	AIRPORT	DPW BUILDING	TOTAL
\$ -	\$ -	\$ -	\$ 41,473
-	-	-	349,032
-	-	-	197,467
-	102	-	102
-	36	96	2,628
1,350	16,316	-	17,666
1,350	16,454	96	608,368
9,990	924	-	649,399
(8,640)	15,530	96	(41,031)
15,000	-	-	50,868
-	-	-	(35,868)
15,000	-	-	15,000
6,360	15,530	96	(26,031)
-	-	44,303	467,273
\$ 6,360	\$ 15,530	\$ 44,399	\$ 441,242

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
MAJOR STREET FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Intergovernmental:			
Federal	\$ -	\$ 349,032	\$ 349,032
State	135,000	145,791	10,791
Interest	3,000	2,123	(877)
Other	297,590	-	(297,590)
TOTAL REVENUES	<u>435,590</u>	<u>496,946</u>	<u>61,356</u>
EXPENDITURES			
Public works:			
Wages	45,500	26,661	18,839
Fringe benefits	9,050	7,954	1,096
Materials and supplies	10,700	5,563	5,137
Professional services	447,945	477,942	(29,997)
Equipment rental	30,000	39,512	(9,512)
TOTAL EXPENDITURES	<u>543,195</u>	<u>557,632</u>	<u>(14,437)</u>
REVENUES (UNDER) EXPENDITURES	(107,605)	(60,686)	46,919
OTHER FINANCING (USES)			
Operating transfer (out)	(33,750)	(35,868)	(2,118)
REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(141,355)	(96,554)	44,801
FUND BALANCES, BEGINNING OF YEAR	<u>340,743</u>	<u>340,743</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ 199,388</u>	<u>\$ 244,189</u>	<u>\$ 44,801</u>

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
LOCAL STREET FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Intergovernmental:			
State	\$ 45,000	\$ 51,676	\$ 6,676
Interest	700	249	(451)
Other	500	-	(500)
TOTAL REVENUES	46,200	51,925	5,725
EXPENDITURES			
Public works:			
Wages	74,550	9,988	64,562
Fringe benefits	5,450	3,176	2,274
Materials and supplies	11,950	4,541	7,409
Professional services	6,000	4,846	1,154
Equipment rental	15,000	17,704	(2,704)
TOTAL EXPENDITURES	112,950	40,255	72,695
REVENUES OVER (UNDER) EXPENDITURES	(66,750)	11,670	78,420
OTHER FINANCING SOURCES			
Operating transfer in	33,750	35,868	2,118
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(33,000)	47,538	80,538
FUND BALANCES, BEGINNING OF YEAR	43,984	43,984	-
FUND BALANCES, END OF YEAR	\$ 10,984	\$ 91,522	\$ 80,538

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
STREET LIGHTING FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 42,531	\$ 41,473	\$ (1,058)
Interest	200	124	(76)
TOTAL REVENUES	42,731	41,597	(1,134)
EXPENDITURES			
Public works:			
Streetlights	40,000	40,598	(598)
REVENUES OVER EXPENDITURES	2,731	999	(1,732)
OTHER FINANCING (USES)			
Operating transfers (out)	(2,731)	-	2,731
REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-	999	999
FUND BALANCE, BEGINNING OF YEAR	38,243	38,243	-
FUND BALANCE, END OF YEAR	\$ 38,243	\$ 39,242	\$ 999

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
SIDEWALK IMPROVEMENT FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Other	\$ -	\$ 1,350	\$ 1,350
EXPENDITURES			
Public works: Sidewalks	-	9,990	(9,990)
REVENUES (UNDER) EXPENDITURES	-	(8,640)	(8,640)
OTHER FINANCING SOURCES			
Operating transfers in	-	15,000	15,000
REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	-	6,360	6,360
FUND BALANCE, BEGINNING OF YEAR	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ 6,360	\$ 6,360

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
AIRPORT FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Rental income	\$ -	\$ 102	\$ 102
Interest	-	36	36
Other	-	16,316	16,316
TOTAL REVENUES	-	16,454	16,454
EXPENDITURES			
Public works:			
Materials and supplies	-	924	(924)
REVENUES OVER EXPENDITURES	-	15,530	15,530
FUND BALANCE, BEGINNING OF YEAR	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ 15,530	\$ 15,530

VILLAGE OF CHESANING, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - AMENDED BUDGET AND ACTUAL
DPW BUILDING FUND**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ 100	\$ 96	\$ (4)
FUND BALANCE, BEGINNING OF YEAR	44,303	44,303	-
FUND BALANCE, END OF YEAR	<u>\$ 44,403</u>	<u>\$ 44,399</u>	<u>\$ (4)</u>

ENTERPRISE FUNDS

VILLAGE OF CHESANING, MICHIGAN

**ENTERPRISE FUNDS
COMBINING BALANCE SHEET**

FEBRUARY 29, 2004

ASSETS	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ -	\$ 118,409	\$ 118,409
Accounts receivable	9,362	3,388	12,750
Taxes receivable - delinquent	6,233	4,157	10,390
TOTAL CURRENT ASSETS	15,595	125,954	141,549
RESTRICTED ASSETS - CASH AND CASH EQUIVALENTS			
Bond reserve	140,046	105,848	245,894
Improvements	207,231	165,402	372,633
Replacement	111,438	-	111,438
TOTAL RESTRICTED ASSETS	458,715	271,250	729,965
FIXED ASSETS			
Land	53,112	38,023	91,135
Plant and facilities	3,685,842	2,011,176	5,697,018
Equipment	137,050	28,724	165,774
Automobile	30,056	13,195	43,251
Less accumulated depreciation	(1,567,139)	(585,867)	(2,153,006)
NET FIXED ASSETS	2,338,921	1,505,251	3,844,172
TOTAL ASSETS	\$ 2,813,231	\$ 1,902,455	\$ 4,715,686
LIABILITIES AND FUND EQUITY			
CURRENT LIABILITIES			
Accounts payable	\$ 12,948	\$ 26,280	\$ 39,228
Accrued liabilities	7,106	1,043	8,149
Due to other funds	180,466	-	180,466
TOTAL CURRENT LIABILITIES	200,520	27,323	227,843
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS			
Bonds payable - current	65,000	85,000	150,000
LONG-TERM LIABILITIES			
Advance from other funds	30,000	-	30,000
Bonds payable - net of current portion	775,000	670,000	1,445,000
TOTAL LONG-TERM LIABILITIES	805,000	670,000	1,475,000
TOTAL LIABILITIES	1,070,520	782,323	1,852,843
FUND EQUITY			
Contributed capital	810,369	374,228	1,184,597
Retained earnings:			
Reserved	393,715	186,250	579,965
Unreserved	538,627	559,654	1,098,281
TOTAL FUND EQUITY	1,742,711	1,120,132	2,862,843
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,813,231	\$ 1,902,455	\$ 4,715,686

VILLAGE OF CHESANING, MICHIGAN

**ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS**

FOR THE YEAR ENDED FEBRUARY 29, 2004

	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL
OPERATING REVENUES			
Taxes	\$ 69,116	\$ 46,075	\$ 115,191
Charges for services	437,411	292,942	730,353
Other	23,306	112	23,418
TOTAL OPERATING REVENUES	529,833	339,129	868,962
OPERATING EXPENSES			
Personnel services	207,779	126,187	333,966
Professional services	23,455	42,294	65,749
Insurance	9,354	5,616	14,970
Supplies	29,134	25,205	54,339
Collection system	15,276	-	15,276
Digester project	18,074	-	18,074
Repairs and maintenance	20,857	3,750	24,607
Equipment rental	14,874	16,358	31,232
Utilities	44,392	21,481	65,873
Gas and oil	694	2,374	3,068
Depreciation	89,768	79,463	169,231
Other	6,289	24,716	31,005
TOTAL OPERATING EXPENSES	479,946	347,444	827,390
OPERATING INCOME (LOSS)	49,887	(8,315)	41,572
NONOPERATING REVENUES (EXPENSES)			
Interest income	2,539	2,095	4,634
Interest expense	(56,573)	(40,340)	(96,913)
TOTAL NONOPERATING (EXPENSES)	(54,034)	(38,245)	(92,279)
NET (LOSS)	(4,147)	(46,560)	(50,707)
ADD: Depreciation on fixed assets acquired with grants and shared revenue that reduces contributed capital	24,113	-	24,113
INCREASE (DECREASE) IN RETAINED EARNINGS	19,966	(46,560)	(26,594)
RETAINED EARNINGS, BEGINNING OF YEAR	912,376	792,464	1,704,840
RETAINED EARNINGS, END OF YEAR	\$ 932,342	\$ 745,904	\$ 1,678,246

VILLAGE OF CHESANING, MICHIGAN
ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED FEBRUARY 29, 2004

	WASTEWATER TREATMENT FUND	WATER FUND	TOTAL
OPERATING INCOME (LOSS)	\$ 49,887	\$ (8,315)	\$ 41,572
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	89,768	79,463	169,231
(Increase) decrease in current assets:			
Receivables	(1,424)	2,026	602
Due from other funds	7,058	95,562	102,620
Increase (decrease) in current liabilities:			
Accounts payable	(4,132)	21,059	16,927
Accrued liabilities	(1,303)	(352)	(1,655)
Due to other funds	83,321	(1,249)	82,072
TOTAL ADJUSTMENTS	173,288	196,509	369,797
NET CASH PROVIDED BY OPERATING ACTIVITIES	223,175	188,194	411,369
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Repayment on advance from other funds	(10,000)	-	(10,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Principal paid on bonds	(60,000)	-	(60,000)
Interest paid on bonds	(56,573)	(40,340)	(96,913)
Acquisition of fixed assets	(27,676)	-	(27,676)
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(144,249)	(40,340)	(184,589)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received on investments	2,539	2,095	4,634
NET INCREASE IN CASH AND CASH EQUIVALENTS	71,465	149,949	221,414
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	387,250	239,710	626,960
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 458,715	\$ 389,659	\$ 848,374

TRUST AND AGENCY FUNDS

VILLAGE OF CHESANING, MICHIGAN

**TRUST AND AGENCY FUNDS
COMBINING BALANCE SHEET**

FEBRUARY 29, 2004

	EXPENDABLE TRUST FUND	AGENCY FUND	
	PEET CENTER FUND	PAYROLL FUND	TOTAL
ASSETS			
Cash and cash equivalents	\$ 2,101	\$ 4,203	\$ 6,304
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accrued liabilities	\$ -	\$ 4,203	\$ 4,203
FUND BALANCE			
Reserved	2,101	-	2,101
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,101	\$ 4,203	\$ 6,304

VILLAGE OF CHESANING, MICHIGAN

AGENCY FUND

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED FEBRUARY 29, 2004

	BALANCE MARCH 1, 2003			BALANCE FEBRUARY 29, 2004				
		ADDITIONS	DEDUCTIONS					
PAYROLL								
ASSETS								
Cash and cash equivalents	\$	2,514	\$	590,498	\$	588,809	\$	4,203
LIABILITIES								
Accrued liabilities	\$	2,514	\$	590,498	\$	588,809	\$	4,203

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 26, 2004

Village Council
Village of Chesaning
Chesaning, Michigan

We have audited the general purpose financial statements of the *Village of Chesaning, Michigan*, as of and for the year ended February 29, 2004, and have issued our report thereon dated March 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the *Village of Chesaning, Michigan's* general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the general purpose financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *Village of Chesaning, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting

that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Johnson



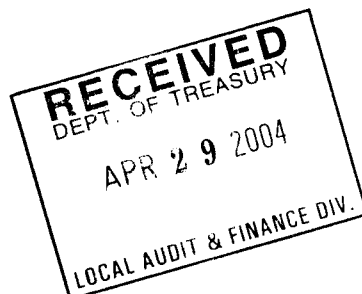
REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

March 26, 2004



To the Village Council
Village of Chesaning
Chesaning, Michigan

In planning and performing our audit of the general purpose financial statements of the *Village of Chesaning* for the year ended February 29, 2004, we considered the Village's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the primary government financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal control and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. (A separate report dated March 26, 2004, contains our report on reportable conditions in the Village's internal control structure.) This letter does not affect our report dated March 26, 2004, on the financial statements of the *Village of Chesaning*.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We wish to thank the management and personnel for their support and assistance during the audit of the *Village of Chesaning*.

Rehmann Robson

VILLAGE OF CHESANING
COMMENTS AND RECOMMENDATIONS

PRIOR YEAR FINDING

A) SEWER FUND NEGATIVE CASH BALANCE IN POOLED ACCOUNT

The Village maintains a pooled checking account for several funds of the Village. During the year some funds carry negative cash balances, which are offset by positive balances in other funds. The Sewer Fund has had a negative cash balance for several years and at the end of the current fiscal year had a negative balance of approximately \$180,000. This negative balance is primarily the result of the user fees received not being sufficient to cover expenses that were paid. Because the Village faces significant repair and maintenance costs as a result of requirements imposed by the Michigan Department of Environmental Quality, this situation is expected to continue in the future.

In order to maintain control over the situation, we recommend that the Village establish limits that set a maximum negative pooled account balance for the Sewer Fund. We also recommend that the Village review the current rate structure and determine if the user fees generated will be sufficient to cover operating expenses, current debt service requirements, and the expected future construction and debt service requirements.

CURRENT YEAR FINDINGS

B) UNIFORM ACCOUNTING AND BUDGETING ACT

The Village did not formally adopt the budget for the years ended February 29, 2004 and February 28, 2005 until March 4, 2003 and March 2, 2003, respectively. However, the Village is required by the Uniform Accounting and Budgeting Act to adopt a budget for the general and all special revenue funds prior to the commencement of the Village's fiscal year.

We recommend that the Village review its budgeting timetable to ensure that a formal budget is adopted in accordance with requirements of the State of Michigan.

C) TIMELY RECORDING OF OVER THE COUNTER RECEIPTS

During fieldwork, we noted that there were several days of unopened mail and collected utility billing receipts that were not recorded in the general ledger.

We recommend that the Village implement procedures to ensure that collections are recorded in the general ledger upon receipt. We also recommend that mail is opened and receipted on a daily basis.

VILLAGE OF CHESANING

COMMENTS AND RECOMMENDATIONS

D) RECONCILIATION OF CASH DRAWER

During fieldwork, we noted that the cash drawer was not properly reconciled after the weekly deposits were made. The cash drawer has an established balance of \$300, however, the balance in the drawer after deposit has not remained consistent during the year ended February 29, 2004.

We recommend that the Village implement procedures to ensure that the drawer is reconciled each week to the proper \$300 balance, with any differences being further investigated and resolved. This will help ensure that all deposits/revenues are properly recorded in the general ledger in a timely manner.

E) SEGREGATION OF DUTIES

Currently there is one employee who is responsible for the collection of cash over the counter, opening of mail, recording receipts in the general ledger, the reconciliation of the cash drawer, and the preparation of the cash and checks for the weekly deposit. This lack of segregation of duties in the cash receipting process creates a higher risk for misappropriation of assets and undetected errors.

We recommend that the Village consider a reallocation of duties whereby another individual without normal access to cash receipts participate in the reconciliation of the cash drawer and the preparation of the cash and checks for the weekly deposit. Incorporation of another employee into the process will reduce the risk of misappropriation of assets and undetected errors.

* * * * *